

Capital Asset Valuation Method

One of the greatest challenges facing Ontario’s school boards due to consolidation has been the need to account for boards’ tangible assets. This is not something that school boards have done historically. This in itself would be hard enough to do, but any valuation method that the workgroup developed had to meet four separate criteria.

It needed to:

- conform to PSAB Handbook recommendations;
- be acceptable to the Office of the Auditor General;
- provide individual asset values that will be useful to school boards when they implement tangible capital assets reporting in their financial statements; and
- be in place by March 31, 2006.

The Reporting Entity Workgroup has developed a valuation method for school board tangible capital assets (land and buildings), which has been accepted in principle by the Office of the Auditor General of Ontario. The workgroup now faces the challenge of valuing school board capital assets, a task that will involve looking at more than 5,000 buildings and associated sites purchased over the last one hundred years.

Here, in broad strokes is a general outline of the valuation method.

The ministry will be using a computer software program called the “Book Value Calculator” (BVC) to determine the gross and net values of these assets, their remaining service life and accumulated amortization. The BVC application was developed by the federal government in 2001 to value their assets for financial statement purposes. The Ontario government used the BVC in 2002 to estimate the value of the province’s land and buildings.

To help with this task, the ministry has contracted with a valuation team from the Ontario Realty Corporation (ORC). They will assist the ministry in collecting the information and processing it through the BVC to determine capital asset information (book value, amortization and remaining service life) as of March 31, 2005. This team brings considerable experience to the Reporting Entity Project. They previously assisted the Province with the valuation of its buildings and land using the BVC.

The BVC uses various cost indices and calculated betterment rates to estimate book values based on a number of key inputs.

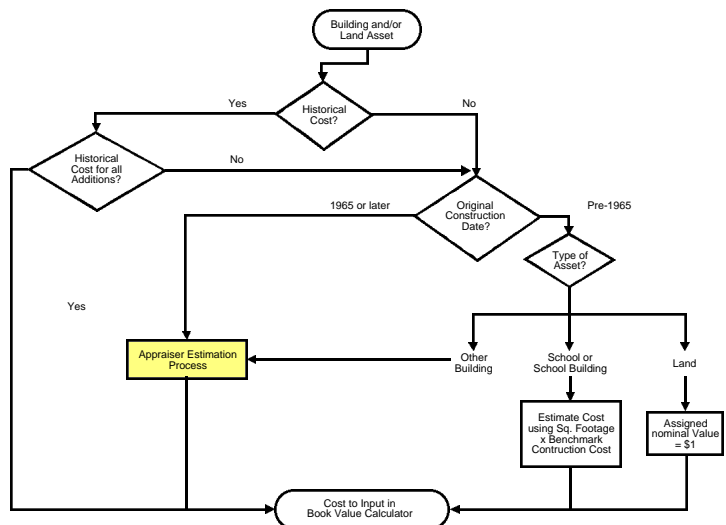
The key inputs required are:

- the acquisition date of the asset;
- the historical cost or an estimated cost as at a date that can be factored back to historical cost; and
- the condition of the asset.

Determining the cost input for the BVC will be the most complicated portion of this project. The following table shows the source of input costs to be used.

ORIGINAL ACQUISITION DATE	LAND	SCHOOL-TYPE BUILDINGS	OTHER BUILDINGS
1965 to Present	Historical Cost or Appraiser Estimate	Historical Cost or Appraiser Estimate	Historical Cost or Appraiser Estimate
Pre - 1965	Historical Cost or Nominal Value	Historical Cost or Benchmark Construction Cost	Historical Cost or Appraiser Estimate

Over the next few months, the ministry will work with boards to ensure that we have complete and accurate data on the school boards’ buildings and land assets. Detailed information on the valuation methodology is available on the TPER website (<http://tper.edu.gov.on.ca/>) under “Reporting Entity Project.”



Dealing with the March 31st Provincial Year-End

The Reporting Entity Workgroup has been working hard to develop a reasonable way to capture the information that has a material effect on the Province's financial statements, without putting too much pressure on the school board staff who must gather it. Boards traditionally report as at August 31. For the purposes of consolidation, however, they will need to have figures ready as at March 31. The following proposal to deal with this has been presented to the Office of the Auditor General and has been accepted in general.

Currently, school boards must file three reports with the Ministry of Education each year: the Estimates, the Revised Estimates and the audited year-end statements. We propose the creation of a fourth: the March 31 stub period report. This report will include the board's assets and liabilities as at March 31, 2006, and their operating results for the seven-month period from September 1, 2005, to March 31, 2006. The seven-month operating results will be combined with the five-month results from April 1, 2005, to August 31, 2005, to determine the twelve-month operating results for provincial purposes. One-time reporting requirements for the five-month period are further addressed below.

There will be a major difference between the stub period report and the financial statements boards issue on August 31 that will make the work of board staff significantly easier than at year end. While in their normal financial reports boards would record all adjustments based on the board's materiality limit, focus will be on larger transactions, based on the province's materiality limit. After consultations with the Ministry of Finance, this materiality has been set at transactions exceeding \$500,000 that is, any receipt, payment, accrual of revenue or expense item greater than \$500,000. Putting the threshold at \$500,000 will focus on amounts that would be significant when rolled into the Province's financial statements and will also speed up and simplify the boards' reporting requirements. Following from this principle of materiality to the Province's statements, boards will limit themselves to collecting data involving

only their major adjustments.

As will, boards will be required to identify and report inter-entity balances as at March 31, 2006. These would include amounts due to or from other school boards, amounts due to or from the Province and amounts due to or from other organizations within the government reporting entity. The workgroup is in the process of identifying the detailed reporting requirements.

As indicated above, boards will also report their results for the five-month period from April to August 2005. The Ministry will include additional schedules in the 2004-05 financial statements which will require boards to report activities relating to the five-month period. This is a one-time reporting requirement to facilitate the preparation of the 2005-06 public accounts on a consolidated basis. In future years, the five-month operating results will be obtained by subtracting the seven-month stub period results from each board's final year-end operating results.

Boards will not need to report asset and liability balances for March 31, 2005. The opening net asset position at April 1, 2005, will be calculated by subtracting the 12-month operating results from the March 31, 2006, net asset balance. However, boards will be required to report any material inter-entities account balances outstanding at March 31, 2005, as this information is important to the Province for its consolidation requirements. These balances would include amounts due to or from (i) other school boards, (ii) the Province (various ministries) and (iii) other organizations within the government reporting entity (e.g., a community college). Forms and instructions for reporting these March 31st, 2005, inter-entity balances will be provided shortly.

The Ministry of Education, Ministry of Finance and the Office of the Auditor General are continuing to discuss possible levels of audit assurance that may be required on the March 31st report. A copy of the proposal presented to the Office of the Auditor General is available on the TPFRR website (<http://tpfrf.edu.gov.on.ca/>) under "Reporting Entity Project."

Meet the ORC Valuation Team

As we proceed with the capital asset valuation portion of this project, we are happy to have a project team from the Ontario Realty Corporation to help us. They have set up offices on the 20th floor of the Mowat Block and will be working closely with the Reporting Entity Project Team on collecting, sorting and analysing the various pieces of data collected regarding the land and building assets owned by the boards.

Members of the team are:

Tony Segreto

Valuation Project Manager

Peter Erwood

Coordinator, Capital Reporting
(Book Value Calculator)

Li Dong

Senior Analyst

Michael Lee

Appraiser

We'll be "counting down to consolidation" at the OASBO Workshop

The Ministry of Education Reporting Entity Project Team will be a part of the Ontario Association of School Business Officials (OASBO) Finance Workshop on June 2nd at the Valhalla Inn in Toronto. Members of the team will provide information on their continuing work on consolidation of school board financial information into the Province's financial statements as of March 31, 2006.

Particular sessions will include:

- Reporting requirements for March 31, 2005, inter-entity balances
- Dealing with different fiscal-year ends and March 31, 2006, reporting issues
- Capital Asset Valuation Project
- Policies for Capital Asset Accounting

For more information and registration forms, go to www.oasbo.org

Consolidation Milestones

May 2005

- Release SB memo on the Reporting Entity Project.
- Release instructions and list of land and building inventory to boards in early May for confirmation and correction.

June 2005

- Release instructions and forms for reporting March 31, 2005, inter-entity balances.
- Boards return confirmed list of land and building inventory on June 10.
- Release forms and instructions for second level of detail required for land and building asset valuation purposes at the beginning of the month.
- Participate in OASBO Finance Workshop's "Countdown to Consolidation" session.
- Release draft of five-month reporting forms and instructions to be included in the 2004-05 EFIS year-end package.
- Complete extract of historical cost information from ministry archive copies of the Direct Capital Grant Approval forms.
- Draft design of forms and instructions to capture tangible capital asset expenditure information.
- Consultation with the ICAO technical committee on various implementation issues, including the valuation of capital assets.

July 2005

- Boards return second-level information on land and buildings.

August 2005

- Appraiser review and estimation process starts at month's end.
- Release final five-month reporting forms and instructions with EFIS 2004-05 year-end package.
- Release final forms and instructions relating to reporting of tangible capital asset expenditures with EFIS 2004-05 year-end package.

September 2005

- First draft of school board tangible capital assets procedures manual released for comments.
- Interim provincial audit on capital asset valuation processes.
- Release draft of stub-period reporting requirements.
- System requirements for recording and updating capital assets identified.
- Information sessions for boards and auditors – highlights of financial statements changes and implication on provincial consolidation.

October 2005

- Board report March 31, 2005, Inter-Entity Balances.

November 2005

- April to August operating results information and capital asset acquisition and disposal data received with 2004-05 Financial Statements and analysed.
- Interim provincial audit on capital valuation process.

December 2005

- Trial provincial run on school board consolidation. Review and analysis of results.

January 2006

- Interim provincial audit on capital assets in year activities (April to August 2005).

February 2006

- EFIS forms, training and information materials required by boards for consolidation process ready.

May 2006

- Boards submit the information on the stub period.
- Consolidation of data for consolidated 2005-06 public accounts completed.

To Learn More about Consolidation

This newsletter and subsequent editions will be available on the TPFRR website at <http://tpfr.edu.gov.on.ca/> under "Reporting Entity Project."

If you have any questions or concerns regarding the project or newsletter, please contact:

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Countdown To School Board Consolidation

News from the Reporting Entity Workgroup

Volume 1, Number 2

